

Rating Action: Moody's confirms ratings of 3 Russian fertilizer and chemicals producers

Global Credit Research - 26 Apr 2016

London, 26 April 2016 -- Moody's Investors Service has today confirmed the Ba1 corporate family ratings (CFRs) and Ba1-PD probability of default ratings (PDRs) of major Russia-based fertilizer producer, OJSC PhosAgro, and Russian gas processing and petrochemical business, Sibur Holding, PJSC. The outlook is negative on these ratings.

At the same time, Moody's confirmed the Ba2 CFR and Ba2-PD PDR of leading potash producer, Uralkali PJSC. The ratings outlook is stable.

The confirmation takes into account the following drivers:

- the companies' strong export potential
- their sustainably low-cost position
- their high margins, aided by rouble depreciation
- solid liquidity

Today's action concludes the rating review initiated by Moody's on 10 March 2016 and follows Moody's confirmation of Russia's Ba1 government bond rating with a negative outlook on 22 April 2016. For additional information, please refer to the related announcement: https://www.moodys.com/research/Moodys-confirms-Russias-Ba1-sovereign-rating-outlook-negative--PR_347453.

A full list of affected rating/entities is included at the end of this press release.

RATINGS RATIONALE

Today's confirmation of the ratings of PhosAgro, Sibur and Uralkali reflects Moody's view that the companies' businesses remain sufficiently resilient to Russia's weakening economy and finances on the back of their strong export potential, sustainably low-cost position and high margins, which are helped by the rouble depreciation and solid liquidity.

At the same time, Moody's notes that the companies' resilience does have its limits given that their assets are concentrated in Russia and the alignment of the Russian country ceiling for foreign currency debt with the sovereign rating.

Even for these companies, which have effectively dealt with their medium-term foreign currency refinancing needs, a severe deterioration of the operating environment in Russia and increasing pressures at the sovereign level might lead to a substantial weakening in their credit profiles.

Country risk combined with the companies' exposure to the weak global commodity markets and some company specific issues, like Sibur's large-scale investment projects resulting in limited credit headroom and Uralkali's higher corporate government risk, will pressure the companies' ratings in the next 12-18 months.

RATIONALE FOR NEGATIVE OUTLOOK FOR PHOSAGRO AND SIBUR

The negative outlook on the companies' ratings is in line with the negative outlook on the sovereign rating. A potential downgrade of Russia's sovereign rating may result in the lowering of the country's foreign and/or local currency bond ceiling and, as a result downgrades of the companies' ratings.

The negative outlook on Sibur's ratings also takes into account a delay in the company's deleveraging as it makes significant investments as part of its ZapSibNeftekhim project.

RATIONALE FOR STABLE OUTLOOK FOR URALKALI

The stable outlook reflects Moody's expectation that Uralkali's strong market and very competitive cost positions will help it maintain sufficient headroom within the parameters of its Ba2 ratings and support its good liquidity.

WHAT COULD CHANGE THE RATING DOWN/UP

The companies' ratings could be downgraded if (1) there is a downgrade of Russia's sovereign rating and/or a lowering of the foreign-currency bond country ceiling; or (2) individual companies' liquidity profiles deteriorate. In addition, downward pressure on individual companies' ratings could develop for the following reasons:

-- for PhosAgro, if the company is unable to deliver adjusted retained cash flow/net debt above 40% and adjusted debt/EBITDA below 1.5x on a sustainable basis

-- for Sibur, if the company's EBITDA margins were to decline materially below 25%, the company were to significantly delay deleveraging to about 2.5x debt/EBITDA and were to fail to maintain retained cash flow/net debt at above 20%

-- for Uralkali, if the company's debt/EBITDA were to exceed 3.5x and retained cash flow/net debt were to fall below 25% on a sustained basis.

Upward pressure on PhosAgro and Sibur's ratings is currently unlikely, given the negative outlook. Moody's could confirm individual ratings if the sovereign rating of Russia were confirmed, and there is no material deterioration in operating conditions or individual company-specific factors.

Upward pressure on Uralkali could emerge if, in Moody's view, the company is able to deleverage, with adjusted debt/EBITDA below 2.5x and RCF/net debt above 40% on a sustained basis, while maintaining good liquidity.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Chemical Industry Rating Methodology published in December 2013. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

OJSC PhosAgro (PhosAgro) is a holding company of a group of chemical companies engaged in the manufacture of phosphate and complex fertilisers. In 2015, PhosAgro generated sales of RUB189.7 billion (\$3.1 billion).

Sibur Holding, PJSC (Sibur) is a Russian vertically integrated gas processing and petrochemicals company. In 2015, Sibur generated revenue of RUB379.9 billion (\$6.3 billion).

Uralkali PJSC (Uralkali) is one of the few largest potash producers by capacity globally. In 2015, Uralkali generated revenue of \$3.4 billion.

LIST OF AFFECTED RATINGS:

Confirmations:

..Issuer: OJSC PhosAgro

.... Corporate Family Rating, Confirmed at Ba1

.... Probability of Default Rating, Confirmed at Ba1-PD

..Issuer: PhosAgro Bond Funding Limited

....Senior Unsecured Regular Bond/Debenture, Confirmed at Ba1

..Issuer: Sibur Holding, PJSC

.... Corporate Family Rating, Confirmed at Ba1

.... Probability of Default Rating, Confirmed at Ba1-PD

..Issuer: Sibur Securities Limited

...BACKED Senior Unsecured Regular Bond/Debenture, Confirmed at Ba1

..Issuer: Uralkali PJSC

... Corporate Family Rating, Confirmed at Ba2

... Probability of Default Rating, Confirmed at Ba2-PD

..Issuer: Uralkali Finance Limited

...Senior Unsecured Regular Bond/Debenture, Confirmed at Ba2

Outlook Actions:

..Issuer: OJSC PhosAgro

...Outlook, Changed To Negative From Rating Under Review

..Issuer: PhosAgro Bond Funding Limited

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Sibur Holding, PJSC

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Sibur Securities Limited

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Uralkali PJSC

...Outlook, Changed To Stable From Rating Under Review

..Issuer: Uralkali Finance Limited

...Outlook, Changed To Stable From Rating Under Review

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